

415

Open Market Crashes Under Pressure--- Pools Unaffected by Demoralization



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Speculators Meet Disaster---Pools Unaffected and Remain in Strong Market Position

MEMBERS of the Saskatchewan Wheat Pool have unquestionably been interested in the situation that has been created by the sharp drop in wheat prices which took place on all the principal markets of the world early in May and which continued for the greater part of a week. In this connection special importance attaches to the statement appearing elsewhere in this booklet by E. B. Ramsay, General Manager of the Central Selling Agency of the Wheat Pools. In addition to Mr. Ramsay's statement, however, which deals only with the position of the Pools in relation to the situation in the wheat market, it will be of interest to review some of the events which led up to the most spectacular collapse of the open market which has taken place since January, 1928, when prices closed at Winnipeg 11 cents below the opening. The decline of 8 cents on May 7, 1929, brought the level of wheat prices down to within one-half cent of the low level for the 1928-29 crop year, which was reached in August, when wheat prices touched \$1.67 $\frac{1}{2}$.

The present situation reveals, in a very vivid manner, the truly international character of the wheat market and illustrates not only the futility of attempts by individuals to stem the tide of market sentiment, or to forecast market developments, but the effect of action in one wheat producing country upon the marketing of the crop produced in another country. For the last four months the export movement of Canadian wheat has been affected by the heavy marketings of Argentine wheat, which, representing a crop so unusually large for that country, have been pouring into Europe at prices very much lower than the normal parity of the Argentine crop with Canadian production. This rush of South American wheat practically put a stop to the export of Canadian wheat for a period of several weeks and while, according to Geo. McIvor, general sales manager of the Central Selling Agency, on May 7, the Pools were "continuing to do a normal business through both Pacific and Eastern ports," press despatches on the same date indicated that there were 76 vessels in Montreal harbor carrying a total of 6,623,100 bushels of grain for unloading, in addition to 12,753,253 bushels in the four harbor elevators at the port, making a total of grain in the port of 19,616,353 bushels. In addition to this quantity at Montreal, there were fifteen vessels at Port Colborne on Lake Erie, with more than 3,000,000 bushels of grain. The elevator space at Port Colborne amounts to 3,000,000 bushels, while Buffalo has approximately 30,000,000 bushels space.

All of this is in the nature of preliminary information relating to the gradual tie-up of shipping facilities at Canadian ports, incidental to the opening of navigation on the Great Lakes and the rapid shipment of grain from the large terminals at Port William and Port Arthur in order to make room for the grain which normally comes forward from the country elevators in the spring. The tie-up at Montreal and the lake ports, however, was not a sudden development, but was foreseen some weeks ago and was inevitable, unless export buying developed on a fairly large scale. It was an entirely different situation which gave the bears the opening they had long been awaiting and enabled them to raid the market for what they hoped to make into one of the biggest killings in the history of the Canadian wheat market. This was the development of farm relief

legislation in the United States, where a special session of Congress has been in progress for the past few weeks, in fulfillment of President Hoover's pre-election pledge.

THE PRICE CRASHES

The Winnipeg market closed on Monday, May 4, for the Arbor Day holiday. The previous week a two-cent reduction on freight rates by the eastern trunk line railways was granted on grain in response to a request from President Hoover for assistance from the railways to help in the movement of the large stocks of U.S. wheat still in the country. On Monday, May 4, a weakness developed in the Chicago, Liverpool and Buenos Aires markets, Liverpool dropping two pence and it was said that "large-scale dumping of Argentine wheat on the Liverpool market was held largely responsible for this slump in values." On Tuesday, May 7, wheat prices broke on the Winnipeg market within five minutes of the opening of the market and according to a report in the Winnipeg Tribune, which has been a staunch supporter of the trade as against the Pools, "frantic brokers crowded the pit with their hands filled with 'stop-loss' orders which they were unable to execute, so great was the wave of selling which swept the board." Liverpool declined still further and Chicago also receded. Kansas City and Omaha markets also went bad and Buenos Aires was likewise weak.

On the same day, Tuesday, western trunk line railroads in the U.S. announced freight rate reductions on export wheat and wheat flour effective until Sept. 30, amounting to from 3½ to 11½ cents per hundred pounds, in response to President Hoover's request. It was evidently the belief of the administration at Washington that with freight rates reduced for U.S. export grain, the large quantities of grain held on the farms could be moved to the European market at prices which would enable the American farmer to compete with the Argentine, but it evidently was not anticipated that European prices would be lowered proportionately. The Argentine situation, the U.S. freight rate situation, with the gradually developing congestion at Canadian ports all conspired to develop a real bearish raid and the price of wheat reacted accordingly. The trade contributed bearish statements of which the following is an example taken from the Edmonton Journal of May 7, and is reported to have been made by "One of the biggest traders in the West":—"Europe knows that it is a buyers' market. I fully expect to see prices go lower. Discussion on the situation in Europe has focused on the huge world surplus, conservatively estimated at 385,000,000 bushels."

Incidentally, the same paper carried on the same day an item in which the following paragraph appeared: "While brokers declared that operations had to be shrouded in secrecy, it was common talk that there had been a frantic rush on the part of speculators in grain to save all possible from the panic. Wires were given a severe test as orders came in from all quarters. In view of the heavy selling, many do not know whether they are safely out of the decline or not." What went on in the offices of Edmonton brokers was duplicated at every bucket shop in Western Canada and reports have reached Pool Head Office that many individual communities throughout Saskatchewan have suffered speculative losses as a result of the decline last week amounting to from \$50,000 in several communities to as high as \$150,000 in at least one other.

TRY TO BLAME THE POOLS

Following the drop on Tuesday, May 7, wheat continued to go down under the concerted pressure of the bears. A Montreal harbor

official was widely quoted in the press on Tuesday to the effect that the congestion at Canadian ports was not due to lack of ships, but to the Pools. He was reported as saying: "The fault does not lie with us, or anyone else in the east. It belongs to the farmers' organizations who are holding up the price although they are sending the grain down here to worry us . . . There has been very little Canadian wheat bought in Europe during the winter, mostly on account of the high prices that have been asked. We thought sure that the buying would start immediately the port opened here, as prices would come down a bit. On the contrary, they are hanging on to the stuff, hoping to force the European buyers' hands. If they would only drop the price a cent per bushel here it would make a great difference . . . I think that we ought to have legislation to prevent them using the ports as dumping ground."

Added to these bearish statements which were undoubtedly cabled or made known to European markets immediately, there was undoubtedly the feeling on the part of the bears on the market that the situation was too ready-made not to rub it into the Pools by depressing the price to the limit. The price went down as low as \$1.08 on Thursday, May 9, and there was a widespread feeling in the trade that it would go to a dollar. It did not do so; and in the prevention of a further decline there were singed pocket-books which did not belong to Pool members.

There are undoubtedly some men, many of them farmers, who bought May futures last fall and held them until May, who know more about the futures market now than they did six months ago. They deserve some sympathy for their losses, which many of them could ill afford, but not enough to encourage them to further gambling. The Pool farmer can thank his stars that there is a Pool and that he is a member of it; and the proof of this statement is in the facts that lie behind the statement of E. B. Ramsay, already referred to. Not all people were foolish enough in the midst of the decline to believe that the Pools were holding the price of wheat too high. A "leading grain exporter" of Vancouver was reported in the Calgary Herald of May 8 as stating that "the congestion at Montreal had been known to wheat buyers in Europe for days and he could not regard it as a factor occasioning the break. Neither did he think that the Pool was holding the price of wheat unduly high. It was impossible to ascertain except from the Pool officials what wheat they were still holding, but he felt they had sold an amount proportionate to that sold by private interests."

MORE MISLEADING STATEMENTS

A Montreal despatch to the Regina Post on May 9 stated that nobody in Montreal seemed to know how much wheat the Pool was still holding, but it contained the statement that officials of the Pools were said to be meeting in Winnipeg to consider the situation and that a senior official was said to have been called over from England. As a matter of fact, the meeting being held in Winnipeg was the regular monthly meeting of the Board of the Central Selling Agency, which was held exactly as usual and would have taken place if wheat had gone up instead of down. Further, as stated by Mr. Ramsay, no senior or other official had been, or is being called over from England.

A Canadian Press despatch of May 10 carries the following: "The Toronto Star was told at Baldwin House, the headquarters of the Department (Department of Economics at Toronto University), that present difficulties (of the wheat market) are mechanical

and will adjust themselves; that the world wheat supply has never been in excess of ultimate demand and that the Wheat Pool is quite justified in refusing to be stampeded into selling its supplies at present broken prices, as there will certainly be a favorable market reaction ultimately."

Likewise, the Regina Post carried a Toronto despatch on May 9, as follows: "The present wheat situation has little, if any, bearing on the relations of the farmers and the banks of Canada and will bring about no change in the financing of the wheat crop. A. E. Phipps, chairman of the Canadian Bankers' Association and President of the Imperial Bank, said here tonight. Other factors besides financing are causing the present difficulties in marketing the wheat surplus and the congestion at the elevators, he said. The financing of the surplus, which is causing the difficulty, has been completed."

POOL AGAIN VINDICATED

The above is a general review of the situation as it has developed recently except for the fact that prices have since recovered somewhat. The correctness of the Pool method has been proven once again and if the facts indicated above are taken in connection with the following statement issued to the press on May 11 by E. B. Ramsey, Pool members may get a very fair picture of the whole affair, which, to say the least, does not redound to the glory of the non-Pool factors in the wheat trade of Canada. The recent situation, coupled with the deliberate circulation of false rumors as to enforced resignations of important Pool officials a month ago, indicates all too clearly the degree of friendly assistance which the western wheat producer may expect from the grain trade of Canada.

Ramsay Squelches Wild Rumors on the Wheat Situation

During the past few weeks numerous rumors, highly detrimental to the Wheat Pool, have been circulating in the press and throughout various other channels. Resignation of officials, general lack of harmonious relationships within the organization, financial embarrassments and the Pool's responsibility for the congestion on the eastern seaboard were prominent among the rumors. These were definitely and completely denied in the following official statement by E. B. Ramsay, manager of the Central Selling Agency:—

"We have refrained from commenting on the situation to date largely because we thoroughly understood the causes for the same and little could be gained by adding our voices to the uproar. Now, however, that everybody interested in one way or another has talked, who was likely to talk, I may say for the benefit of our members that we are unaffected by the recent demoralization of the open market.

"The past week has been a splendid illustration of the inadequacy of using a system under modern conditions that will permit of the offering for sale of enormous quantities of produce at any one time, especially quantities tremendously in excess of the consumptive demand.

"The immediate result of the situation on the European market is that the United States has thoroughly advertised to the consumer that they have a large surplus of wheat which they do not know what to do with. Our view of the situation is that the supposed world surplus is more apparent than real. According to official figures, world production of wheat, exclusive of Russia and China, in 1928-29, was approximately 260,000,000 bushels greater than during 1927-28.

INCREASED PRODUCTION TAKEN CARE OF

"The increased production, however, has been in a large measure offset by increased consumption of wheat both as human and animal food the world over. Shipments from the major exporting countries from August 1 to the end of April were 740,000,000 compared with 596,000,000 bushels during the corresponding period last year. Ex-European countries have imported to date, 176,000,000 bushels compared to 94,000,000 during the same period last year. Despite the fact that 127,000,000 bushels of the increase in world wheat production took place in Europe she has imported to date some 28,000,000 bushels more than during the same period last year and wheat stocks in Europe, as a whole, are certainly no greater than at this time a year ago. Official figures of Canadian exports during April are not yet available but from August first to the end of March Canada exported 315,000,000 bushels compared to 226,000,000 during the corresponding period last year. Assuming a carryover of 60,000,000 bushels, or 15,000,000 bushels below last year's carryover, Canada can export only 100,000,000 bushels from April first to the end of July compared to 107,000,000 last year. Australia exported from August 1 to April 20, 39,000,000 bushels compared to 44,000,000 last year, and in order to have a carryover at the end of July equal to the 40,000,000 carryover of last year, can export only 16,000,000 bushels compared to 26,000,000 last year, when her crop was 40,000,000 bushels smaller than this year. The Argentine crop has not been officially estimated. Exports from August 1 to April 20 were 122,000,000 bushels compared to 129,000,000 bushels during the same

period a year ago. Even if we place the Argentine crop as high as 790,000,000 bushels (the official estimate was 239,000,000 in 1927-28; the average of the official estimates in the three previous years was 300,000,000 bushels) exports to the end of July cannot exceed 46,000,000 bushels compared to 47,000,000 bushels last season, without reducing the carryover below last year's total of 70,000,000 bushels. Net exports from the United States from July 1 to April 30, were 117,000,000 bushels compared to 177,000,000 during the corresponding period a year ago. The carryover will probably be increased by about 60,000,000 bushels or an amount equal to the decrease in exports.

"Taking the four major exporting countries, allowing the decrease in the carry-over in Canada compared with last year of 13,000,000 bushels, assuming the Australian and Argentine carry-over to be the same as last year, exports from those countries during the balance of the crop year will be 193,000,000 bushels compared with 177,000,000 last year. Thus the much talked-of world surplus amounts to an increase in the United States carry-over of some sixty million bushels which is partially offset by a decrease in the Canadian carry-over.

"There is little prospect of world production of wheat this year reaching the 1928 level. However, even if it should, the increased consumption which has developed this past year will in all probability provide a market, and at a profitable figure provided it is marketed in a sane way. There is no doubt that a reasonable price will be obtained for the balance of this year's and succeeding crops as we are adequately financed and prepared to await the active demand. From a national standpoint the regrettable feature of the whole situation is that thousands of non-pool farmer holders were sold out on the break. This will undoubtedly have a depressing effect on general business in the country during the summer and will also tend to stampede those farmers to the market in the fall to obtain funds.

ASSURED OF GOOD INTERIM PAYMENT

"Insofar as the Pool situation is concerned, our average for the year is to a large extent established and while it may be a few cents greater or less, that will depend entirely on the balance of the season. In any case the Pool farmer is assured of a good interim payment prior to harvest.

"I may say for the benefit of our members that one reason for the quite conservative spring interim payment was that the present situation was anticipated. The fact that it has been delayed until now has very materially benefitted the Pool.

"In complete denial of the various rumors which have been circulated recently, I may say:

"That not one of our officials has resigned or is leaving us.

"A high Pool official is not recalled from Europe for the purpose of discussing the situation.

"We are not responsible for the congestion on the eastern seaboard.

"The Pool is not in financial difficulties.

"We have no anxiety over our present stocks of wheat.

"The comments in the market reports as to Pool operations are 75 per cent. pure surmise."